

**REPORT OF THE AUDIT OF THE  
CARTER COUNTY  
SHERIFF'S SETTLEMENT - 2003 TAXES**

**April 30, 2004**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE 502.573.0050  
FACSIMILE 502.573.0067**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Charles Wallace, Carter County Judge/Executive  
Honorable Kevin McDavid, Carter County Sheriff  
Members of the Carter County Fiscal Court

The enclosed report prepared by Morgan-Franklin, LLC, Certified Public Accountants, presents the Carter County Sheriff's Settlement - 2003 Taxes as of April 30, 2004.

We engaged Morgan-Franklin, LLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Morgan-Franklin, LLC evaluated the Carter County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen  
Auditor of Public Accounts

Enclosure





**REPORT OF THE AUDIT OF THE  
CARTER COUNTY  
SHERIFF'S SETTLEMENT - 2003 TAXES**

**April 30, 2004**

**Morgan-Franklin, LLC  
P.O. Box 428  
513 Main Street  
West Liberty, KY 41472**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**CARTER COUNTY**  
**SHERIFF'S SETTLEMENT - 2003 TAXES**

**April 30, 2004**

Morgan-Franklin, LLC has completed the audit of the Sheriff's Settlement - 2003 Taxes for Carter County Sheriff as of April 30, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$4,444,847 for the districts for 2003 taxes, retaining commissions of \$180,462 to operate the Sheriff's office. The Sheriff distributed taxes of \$4,259,452 to the districts for 2003 Taxes. Refunds of \$11 are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.





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# **Morgan-Franklin, LLC**

**P.O. Box 428  
513 Main Street  
West Liberty, KY 41472**

The Honorable Charles Wallace, Carter County Judge/Executive  
The Honorable Kevin McDavid, Carter County Sheriff  
Members of the Carter County Fiscal Court

## Independent Auditors' Report

We have audited the Carter County Sheriff's Settlement - 2003 Taxes as of April 30, 2004. This tax settlement is the responsibility of the Carter County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Carter County Sheriff's taxes charged, credited, and paid as of April 30, 2004, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 22, 2004, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Honorable Charles Wallace, Carter County Judge/Executive  
The Honorable Kevin McDavid, Carter County Sheriff  
Members of the Carter County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

Audit fieldwork completed -  
September 22, 2004

CARTER COUNTY  
KEVIN MCDAVID, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2003 TAXES

April 30, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 362,877	\$ 665,607	\$ 1,983,399	\$ 661,133
Tangible Personal Property	30,541	53,112	154,009	107,207
Intangible Personal Property				35,084
Fire Protection	4,244			
Increases Through Exonerations	26	46	140	47
Franchise Corporation	76,537	133,584	392,889	
Additional Billings	541	992	2,956	1,092
Unmined Coal - 2003 Taxes	41	75	223	74
Limestone, Sand, and Mineral Reserves	1,007	1,847	5,504	1,835
Bank Franchises	63,547			
Penalties	3,337	6,033	17,969	5,934
Adjusted to Sheriff's Receipt	(1,014)	4,729	(5,335)	(1,816)
Gross Chargeable to Sheriff	<u>\$ 541,684</u>	<u>\$ 866,025</u>	<u>\$ 2,551,754</u>	<u>\$ 810,590</u>
<u>Credits</u>				
Exonerations	\$ 12,158	\$ 22,259	\$ 66,328	\$ 22,317
Discounts	6,419	9,420	27,618	10,799
Delinquents:				
Real Estate	14,416	26,241	78,194	26,065
Tangible Personal Property	153	267	775	877
Intangible Personal Property				172
Uncollected Franchise	90	160	478	
Total Credits	<u>\$ 33,236</u>	<u>\$ 58,347</u>	<u>\$ 173,393</u>	<u>\$ 60,230</u>
Taxes Collected	\$ 508,448	\$ 807,678	\$ 2,378,361	\$ 750,360
Less: Commissions *	21,897	33,155	93,232	32,178
Taxes Due	\$ 486,551	\$ 774,523	\$ 2,285,129	\$ 718,182
Taxes Paid	486,063	773,634	2,282,476	717,279
Refunds (Current and Prior Year)	489	890	2,660	905
Refunds Due Sheriff		**		
as of Completion of Fieldwork	<u>(1)</u>	<u>\$ (1)</u>	<u>\$ (7)</u>	<u>(2)</u>

\* and \*\* See next page.

The accompanying notes are an integral part of this financial statement.

CARTER COUNTY  
KEVIN MCDAVID, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2003 TAXES  
April 30, 2004  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	1,588,107
4% on	\$	468,380
3.92% on	\$	2,378,360

\*\* Special Taxing Districts:

Ambulance District	<u>(1)</u>
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Refund Due Sheriff	<u><u>(1)</u></u>
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CARTER COUNTY  
NOTES TO FINANCIAL STATEMENT

April 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 30, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

CARTER COUNTY  
NOTES TO FINANCIAL STATEMENT  
APRIL 30, 2004  
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 14, 2003 through April 30, 2004.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2003. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 25, 2004 through April 30, 2004.

Note 4. Interest Income

The Carter County Sheriff earned \$2,208 as interest income on 2003 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Carter County Sheriff collected \$25,734 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Carter County Sheriff collected \$1,629 of advertising costs and \$3,545 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. According to KRS 393.090, effective through June 23, 2003, property is presumed abandoned after seven years, after which time it is to be turned over to the Kentucky State Treasurer. After KRS 393.090 was amended, effective June 24, 2003, property is presumed abandoned after three years, after which time it is to be turned over to the Kentucky State Treasurer, in accordance with KRS 393.110. For the 2003 taxes, the Sheriff had \$77 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.



COMMENT AND RECOMMENDATION



CARTER COUNTY  
KEVIN MCDAVID, COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

As of April 30, 2004

INTERNAL CONTROL – REPORTABLE CONDITION:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our audit we noted the Sheriff's internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. In our judgment, this condition could adversely affect the Sheriff's ability to record, process, summarize, and report accurate financial information. We recommend the Sheriff obtain additional staff to divide the responsibilities or implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Cash periodically recounted and deposited by the Sheriff
- Periodic reconciliation of reports to source documents and receipts and disbursements ledgers by the Sheriff
- All disbursement checks are to be signed by two people and one must be the Sheriff
- The Sheriff examines payroll checks prepared by an employee and distributes checks to employees
- All disbursements checks prepared by an employee are examined by the Sheriff for proper documentation
- The Sheriff mails disbursements
- The Sheriff or someone independent of the Sheriff's Office prepares bank reconciliations

*County Sheriff Kevin McDavid's Response:*

*None*

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



# **Morgan-Franklin, LLC**

**P.O. Box 428  
513 Main Street  
West Liberty, KY 41472**

The Honorable Charles Wallace, Carter County Judge/Executive  
The Honorable Kevin McDavid, Carter County Sheriff  
Members of the Carter County Fiscal Court

## **Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards**

We have audited the Carter County Sheriff's Settlement - 2003 Taxes as of April 30, 2004, and have issued our report thereon dated September 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

### **Compliance**

As part of obtaining reasonable assurance about whether the Carter County Sheriff's Settlement - 2003 Taxes as of April 30, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Carter County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

Audit fieldwork completed -  
September 22, 2004



